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TO RUEHC/SECSTATE WASHDC 5372  
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RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHSO/AMCONSUL SAO PAULO 6944  
RUEHRI/AMCONSUL RIO DE JANEIRO 2061  
RUEHBU/AMEMBASSY BUENOS AIRES 3997  
RUEHSG/AMEMBASSY SANTIAGO 5491  
RUEHAC/AMEMBASSY ASUNCION 5414  
RUEHMN/AMEMBASSY MONTEVIDEO 6231  
RUEHME/AMEMBASSY MEXICO 1965  
RUEHCV/AMEMBASSY CARACAS 3232  
RUEHBO/AMEMBASSY BOGOTA 3732  
RUEHMO/AMEMBASSY MOSCOW 0302  
RUEHQT/AMEMBASSY QUITO 1805  
RUEHLP/AMEMBASSY LA PAZ 4569  
RUEHPE/AMEMBASSY LIMA 2976  
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SUBJECT: BRAZIL: CENTRAL BANK COOPERATION WITH THE BANK OF RUSSIA  
AND OTHER EMERGING COUNTRY MONETARY AUTHORITIES

¶1. (SBU) Summary: Henrique Meirelles, president of the Brazilian Central Bank (BCB), traveled to Moscow May 10-11 to meet with local monetary authorities. During that visit, Meirelles planned to sign a cooperation agreement with the Bank of Russia (BOR) as officials there are reportedly interested in the Brazilian inflation targeting system, the BCB apparatus for effectuating inter-bank settlements and Brazilian banking supervision arrangements. For their part, the Brazilians have two main interests: 1) developing trade finance mechanisms between the two countries, and 2) attracting a share of Russia's disposable investment capital, given Russia's recent high current account surpluses, a fact reflected by the US\$230 billion in international reserves it has accumulated. End Summary.

¶2. (U) According to press reporting here, the BOR is interested in information exchanges regarding the institutional framework that Brazil has adopted to implement its inflation targeting system. In Brazil, the annual inflation target, currently 4.5%, is set by the National Monetary Council (NMC), a body that consists of the President of the Central Bank, the Minister of Finance and the Minister of Planning and Budget. Decisions on the interest rate necessary to meet the inflation target are made by the Monetary Policy Committee (COPOM) of the Central Bank, which consists of the Central Bank President and the eight directors, who meet eight times a year. (The benchmark overnight SELIC rate currently stands at 15.75%.) The COPOM enjoys only de facto independence in its interest rate decisions; legislation granting the BCB formal autonomy has languished in Congress for several years. The interest rate decisions are informed by a sophisticated macroeconomic model maintained by the BCB's economic studies department. The econometric model of the inflation targeting system reportedly piqued the BOR's interest because of Brazil's experience as a major emerging market economy that successfully tamed high inflation.

¶3. (U) These institutional arrangements are complemented by an elaborate system of interactive reporting to communicate with the public and financial markets. The BCB surveys financial institutions that maintain their own econometric models of the Brazilian economy and publishes weekly a report on market expectations which incorporates the average predictions that these models make on key economic variables, such as inflation (any one of several indexes), GDP growth, exchange rate, and interest rates. (See, inter alia, [www4.bcb.gov.br/PEC/GCI/Ingl/readout/R2006051\\_2.pdf](http://www4.bcb.gov.br/PEC/GCI/Ingl/readout/R2006051_2.pdf)) The COPOM also publishes the week after the minutes of its interest rate-setting meetings. In 2005, China implemented a similar market expectations survey mechanism, which reportedly was based substantially on the Brazilian model. Important for the Russians was the fact that the survey is completely electronic, which allows the Brazilian Central Bank to conduct real time monitoring of the evolution of market expectations. Similar market expectations survey systems have been implemented in Argentina and Colombia.

¶4. (U) Meirelles was joined by representatives of the public and private Brazilian banks on this visit to Russia. These representatives will be presenting Brazilian banking technology (software and monitoring systems), which reportedly also is of interest to the BOR. Brazilian financial institutions invested early and heavily in the development of electronic banking systems, spurred by hyperinflation, which made every minute of payment "float" count. This made Brazil a leader in introducing real time electronic settlement systems between banks. Finally, the media here report that the BOR is interested in Brazil's banking supervision arrangements, which are enhanced by Central Bank electronic monitoring systems.

¶5. (U) The Brazilian Central Bank has developed formal and informal

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cooperation agreements with China, Mozambique, Indonesia, and Ukraine. The Brazilian Central Bank has also developed cooperation agreements with countries such as Angola in which it transfers technology in the areas of international reserve management, risk management and benchmark.

¶6. (SBU) Comment: Brazil sees Russia through a couple of different prisms. The first is President Lula's foreign policy priority, advanced primarily by the Ministry of External Relations (MRE), to build cooperation among developing countries (the "South-South Cooperation" moniker would apply but for Russia's awkwardly northern geographic location). The Central Bank, however, tends to be more pragmatic than the MRE, and is likely motivated primarily by the desire to build the financial infrastructure to facilitate trade. Russia already is an important market for certain Brazilian products, notably beef. It would love to add some higher tech exports, such as banking software, to the mix. End Comment.

CHICOLA